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## **Will big 4 increase rates? Don't get mad, get switching!**

- Big 4 banks stand to make \$20 million per month with just a 0.10% rate rise
- They're relying on customer inertia – but extra interest revenue would be wiped out if around 20,000 borrowers switched from major banks
- It's up to borrowers to demand a better deal and be prepared to switch!

### **February 10, 2012, Sydney**

Lenders will be relying on customer inertia if they decide to raise their interest rates outside of the Reserve Bank of Australia's (RBA) cash rate cycle, according to Australia's best financial comparison website RateCity ([www.ratecity.com.au](http://www.ratecity.com.au)).

The ANZ bank will be the first of the major four banks – Commonwealth Bank, National Australia Bank (NAB) and Westpac – to review its interest rates in a meeting today (Friday, February 10, 2012), following no change to the official cash rate from the Reserve Bank of Australia (RBA) on Tuesday (February 7, 2012).

Damian Smith, RateCity's CEO, said it will be a risky move by lenders to increase their interest rates on home loans.

"We estimate that there are over two million variable rate home loan customers with the big four banks. By lifting their variable interest rates by as little as 10 basis points, the big four stand to make an extra \$228 million per year or \$19 million per month in revenue.

"But it would only take 1 percent of their customers – which is about 20,000 home loans – to switch away from the big four for the increase in revenue to be cancelled out," said Mr Smith.

Australia's property market would also take a blow if lenders chose to lift their home loan interest rates out of cycle.

"It would be very concerning if banks lift their interest rates on mortgages because lending growth is slow.

"According to our research (based on data from the Australian Bureau of Statistics), the number of home loans financed in the past year (to November 2011) has only increased by 1.6 percent or 8,330 home loans, compared to the previous 12 months. And most of last year we saw fewer home loans financed each month compared to the same month in the prior year.

"A rise in interest rates now could exacerbate the problem and Australia's property market could face an even tougher year."

Mr Smith said borrowers have the power to keep their lenders in line by demanding a better deal and switching lenders if their borrower won't negotiate.

"Borrowers need to find out what their lender is charging them and compare their home loan to what's on the market.

"While most variable rate customers still face exit fees on their home loans, switching to a home loan that's just 10 basis points cheaper could save you \$20 a month or more than \$7,000 over the life of a 30-year loan (using the average variable rate of 6.80% for a \$300,000 home loan over 30 years, excluding fees)."

"Even after switching costs of around \$2,000 (including application fees for a new loan), borrowers with a \$300,000 home loan would be well ahead inside two years with a rate reduction of less than 0.5 percent. Discounts of up to 1 percent versus the average rate from the Big Four can still be found from smaller lenders who are hungry for business."

**RateCity's top variable and three-year fixed rate home loans**

<b>Variable home loans</b>	<b>Three-year fixed home loans</b>
UBank UHomeLoan (for refinancing) – 6.14%	Holiday Coast Credit Union – 5.94%
State Custodians Standard Variable Offset – 6.22%	Homestar Finance – 5.95%
IMB Budget Home Loan – 6.27%	ING Direct – 5.99%
Loans.com.au Dream Loan Express Variable – 6.29%	MyRate – 6.05%

Please note: available to the general public, based on a loan balance of \$250,000, conditions and fees may apply

**Methodology:**

- We used APRA data to calculate total of major 4 banks' owner-occupied loans to households (\$586.5 billion)
- To calculate the share of variable rate mortgages, we used the 10-year historical average of fixed and variable home loans from Australian Bureau of Statistics (ABS) Housing Finance data (10% fixed: 90% variable). This equals \$527.9 billion
- We based the total interest on the proportion of total repayments that go towards interest rather than principal for a 30-year home loan – we made this assumption due to the unknown mix of loan terms and ages
- The additional interest earned divided by the current interest earned equals about 1%
- 1% of the total number of variable home loans we estimate to be with the major 4 banks is 20,300

– End –

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